## STATE OF COLORADO

## OFFICE OF STATE PLANNING AND BUDGETING

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## **MEMORANDUM**



Bill Owens Governor Henry R. Sobanet Director

TO: Governor Bill Owens

FROM: Henry Sobanet and Bill Skewes

DATE: September 27, 2005

SUBJECT: Questions Regarding the State Budget

This memorandum is in response to several questions you had concerning the State's budget.

- ◆ In FY 2001-02, General Fund revenues fell 13.0 percent and then another 3.1 percent in FY 2002-03. By year-end FY 2005-06, gross General Fund revenues collected will be just \$40 million above the FY 2000-01 peak.
- ♦ For FY 2005-06, the amount TABOR will allow us to grow will be just 1.3 percent, even though TABOR revenues generated by the recovering economy will increase 6.9 percent from the FY 2004-05 TABOR base.

Based on the September 2005 Revenue Forecast, if Referendum C does not pass, the FY 2006-07 budget, which we are planning now, must <u>decline</u> from the FY 2005-06 appropriation by 2.7 percent, or \$165 million. This means that the required growth in K-12 education and Medicaid (approximately \$200 million) will have to be funded – absent a recurring source of new revenue – from cuts to other programs. Thus, in FY 2006-07, the \$505 million TABOR surplus obligation together with the mandated increases in K-12 education and Medicaid will require cuts of approximately \$365 million to the non-K-12 and Medicaid portions of the budget. *It is important to emphasize that this budget problem is structural, and will recur until addressed.* Thus, the "solution" suggested by some of using one-time moneys from sale of buildings or tobacco securitization for ongoing programs simply pushes the problem to a future year.

- ➤ In terms of the non-K-12 and Medicaid portions of the budget, the largest departments are Human Services, Corrections, and Higher Education. If \$365 million were reduced from these departments it would represent a 22 percent across-the-board reduction. If the reduction came only from Higher Education, it would require a 61 percent reduction to the College Opportunity stipend, dropping it to \$935 from \$2,400. This would be in addition to cuts in other areas of higher education, such as graduate programs.
- ➤ It is also important to note that, without regard to TRANS bonds, revenue sources for transportation projects have declined more than 25 percent since FY 2000-01 (falling from \$1.1 billion in FY 2000-01 to \$817.2 million in FY 2005-06). This decline would be even greater if we were to include the proceeds from TRANS bonds. Furthermore, because of rising fuel prices and increasing fuel efficiency, gas tax revenues fell 0.5 percent in FY 2004-05 and will be flat in FY 2005-06. Therefore, without additional sources of revenue, the ability of the gas tax to support our growing transportation needs is limited.